



# Property Tax Review

March 2004

Volume 5, Issue 1

## Looking to the Future

By Peri Maxey, Assistant Director

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For the last several months, we have been working on our agency's Strategic Business Plan. The effort started when an interdivisional team began thinking about what the world of taxes (including property tax) might look like 20 years into the future. One concept emerged from every discussion – people will want and need to do business from any location throughout the world. With that thought in mind, we set out to explore ideas for our programs that move property tax administration in that direction.

We use our Strategic Business Plan to help us plan for addressing the changing environment and to establish our priorities. We pause every other year to spend time updating and adding to the plan. We involve our staff by asking for their insights in order to fine tune the direction we are taking.

Working within the framework of our agency's mission and goals, we strategized ways to make conducting business simpler for our customers. We also looked for opportunities for efficiencies, improvements, and innovations. We kept asking ourselves if there were more ways to utilize the internet to provide information to the public. What could we do to build and strengthen our relationship with our customers?

As a result of the many discussions we've had in the Property Tax Division, we believe we can improve administration by making more information available on our website, by creating a new learning environment for our training courses, by utilizing data more extensively, and by continuing to build our GIS system. We are looking at the possibility of providing levy training through an online tutorial system so our customers have access to the information 365 days a year. We have plans to capture information on REET (real estate excise tax) affidavits electronically so we have a data base of sale information. We hope to do a comprehensive review of other data (levy, valuation, program participation) received in various reports assessors provide to us throughout the year. Our goal is to gain some consistency in the reporting format so the information can be better utilized and easily reported.

We are also continuing with our county and levy review programs, and we have been asked to provide guidance in the area of segregations and the payment of property tax. We will be looking at new construction and improvements to property in an attempt to address the myriad of questions we get in this area. We will be completing

valuation studies on the food processing and plastic extrusion industries. Our valuation advisory manager, Mark Maxwell, is organizing a work group to learn more about CAMA systems in order to assist counties. Our training calendar includes several new classes this year – *Land Valuation, Advanced Statistical Analysis, and Depreciation Analysis*. We will be providing guidance on the implementation of the aerospace incentive legislation. And, we will be seeking more feedback to find better ways to work with our customers.

This year we are instigating a new segment into some of our training courses – a segment on public trust. This segment builds around customer service by identifying what customers need and expect from government offices. We've just started, but so far the comments have been very positive.

As well as the internal work we have done, we look for opportunities to gain insight into what other people are thinking. We met with assessors and treasurers at their legislative conferences in Olympia and heard many ideas and concerns voiced. We welcome your comments. Give us a call or send us an e-mail. ♦

### Special points of interest:

- **Quarterly Reminders** (see pages 4-5)
- **Upcoming Training** (see page 8)

## Attention BOE Members and Clerks

By Kathy Beith, Technical Programs Manager

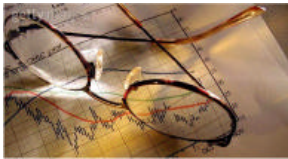
**"...all board members are required to attend training within one year of appointment or reappointment to the board."**

We have scheduled several training sessions for newly appointed and senior board of equalization members and BOE clerks. The training will be held in various locations throughout the state during the first part of June (*see page 8, Upcoming Training*). Information regarding the training will be sent to all county boards of equalization in the near future.

It's important to remember that state law requires all board members to attend training within one year of appointment or reappointment to the board of equalization. Failure to attend the training as required disqualifies the member from serving on the BOE unless the Department of Revenue has waived the training requirement for just cause. So, watch for the training announcements and register for one of the classes! ♦

## Initiative 864

By Kathy Beith, Technical Programs Manager



*Our analysis of the Initiative is ongoing.*

Initiative 864, which seeks to reduce regular property tax levies of local taxing districts by 25 percent annually, has been filed with the Secretary of State's office. At this point, there is no way to know if sufficient signatures will be gathered to qualify the Initiative for the November ballot or, if qualified, if the voters will adopt the Initiative. That said, we have received many questions regarding the administration and impact of I-864 in the case it is approved in the November general election.

To that end, we have distributed several documents to assessors and treasurers regarding the fiscal and administrative impacts of I-864. The statements and opinions provided in our analyses are not, and should not be interpreted as, expressions for or against the Initiative. They are offered pursuant to our statutory responsibility to exercise general supervision with respect to the administration of the property tax laws. (Chapter 84.08 RCW)

Our analysis of the Initiative is ongoing. We continue to receive questions and will continue to analyze I-864 in an effort to answer those inquiries. If you have specific questions regarding the effects of I-864, please forward them to me at [kathyb@dor.wa.gov](mailto:kathyb@dor.wa.gov) or call me at (360) 570-5868. ♦

## County Progress

The Department would like to recognize the following county assessment offices:

**Chelan, Ferry, Franklin, Garfield, Kittitas, Lincoln, Pend Oreille, Skamania, Wahkiakum, Walla Walla, and Yakima**

These counties have been timely in closing assessment rolls, certifying values to their Boards of Equalization and reporting to the Department for each of the last three years. We applaud your efforts in providing timely assessments to your public, taxing districts, and your friendly DOR! ♦

## Department to Resume Sales Study Audits

By Deb Mandeville, Ratio Specialist

What in the world is a **sales study**? Property sales are the basis of data used by county assessors to determine the fair market value of property. Washington law says all property is to be assessed at its fair market value. This is the value at which property would likely sell if it were available for sale on the open market, and it is also the standard every county assessor is required to use when assessing property. When real property sells, the county assessor collects the information and uses it to compare to other similar properties for the purpose of estimating fair market or assessed value of other properties. This is done by collecting all the real property sales information into a database called a sales study. The sales study becomes the benchmark for determining market value of all property in a county.

For the state mandated annual real property ratio study (RCW 84.12.350, 84.48.075, and 84.48.080), the sales study consists of all transactions, both valid and invalid, that transpire in a county between August 1<sup>st</sup> of the previous year through March 31<sup>st</sup> of the current year.

The Department of Revenue audits each county's sales study by reviewing selected sales that may or may not have been used for the sales study. The law allows the county to invalidate or eliminate certain sales from their sales study if there are sales that are determined not to be

representative of fair market value. Examples of sales that should be excluded from a sales study would include sales from one family member to another or sales that are forced due to a pending foreclosure or liquidation.

The rules for performing the sales study can be found in WAC 458-53-070. Listed in this rule are 27 recommended codes or reasons for eliminating sales from a county's sales study. Examples of codes utilized for discarding or

**"The rules for performing the sales study can be found in WAC 458-53-070."**

"invalidating" sales from the sales study are:

#8 — Individual sales with assessment-to-sales ratios of less than 25 percent or greater than 175 percent, except as provided in WAC 458-53-070.

#15 — Forced sales – transfers in lieu of imminent foreclosure, condemnation, or liquidation.

#18 — Property physically improved after the sale.

#27 — Other – necessary to identify with reason.

In June 1999, the Washington State Association of County

Assessors' Ratio Committee approved an implementation plan that included a pilot program for the Department of Revenue to perform a sales study audit. The Department's Property Tax Division started this pilot program in late 1999 with the assistance of our real property ratio appraisers. During the first two years, the audit program was conducted in 26 counties. In 2002 and 2003, the program was suspended during a reorganization of our division with the intention of resuming it in the near future. With the restructuring behind us, we are now ready to resume the Sales Study Audit Program and include all 39 counties.

Department staff will soon be visiting all counties to gather information regarding specific invalidated sales that occurred between August 1, 2002 and March 31, 2003.

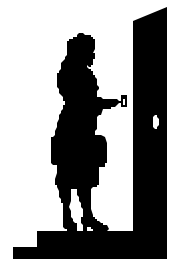
At the conclusion of this year's program, we will be contacting each county to schedule appointments to review the results in personal face-to-face reviews of the study. This approach was very successful in the past and served as a great training opportunity for staff involved in the real property ratio study.

If you have any questions regarding this program, please contact Deb Mandeville at (360) 570-5863 or via e-mail at [DebM@dor.wa.gov](mailto:DebM@dor.wa.gov) or Dave McKenzie at (360) 260-6196 or via e-mail

[DaveM@dor.wa.gov](mailto:DaveM@dor.wa.gov). ♦



*A sales study becomes the benchmark for determining market value of all property in a county.*



*Department staff will soon be visiting all 39 counties to gather information for the Sales Study Audit Program.*

## This Quarter's Reminders

### March 1

Most taxing district boundaries must be established to permit levy for collection following year. (RCW 84.09.030) For exceptions, see RCW 84.09.030-035. Also, changes in district boundaries must be submitted to Dept. of Revenue in order to receive proper apportionment of values of state assessed properties. (WAC 458-50-130)

### March 15

Utility company annual returns on standard form must be filed with the Dept. of Revenue. Penalties prescribed (RCW 84.12.230, 260).

### March 31

Applications for exemption from the property tax must be received by the Dept. of Revenue to avoid \$10/mo. penalty. (RCW 84.36.815 & 825) Newly incorporated cities may establish boundaries. (RCW 84.09.030)

### April 30

Personal property report on standard form must be filed with county assessor. Penalties prescribed. (RCW 84.40.020, 040, 060 and 130) Also, last day for payment of taxes except when taxes on one lot or tract are \$50 or more, or when personal property taxes total \$50 or more, one-half may be paid by April 30 and the remaining one-half by October 31. (RCW 84.56.020)

### May 1

Assessor must notify applicant for forest land designation prior to this date if request denied. (RCW 84.33.130) Also, open space farm and agriculture land.

(Continued on page 5)

## PROPERTY IN MOTION

# Personal Property Assessment Issues

By Neal R. Cook, MAI, Personal Property Specialist

The focus of this column is personal property valuation and administration issues. If you have topics or questions that you would like included in a future issue, please let me know. Contact me via e-mail at [NealC@dor.wa.gov](mailto:NealC@dor.wa.gov) or by phone at (360) 570-5881.

## Valuation of Privately-Owned Improvements on Public Land

When valuing a privately-owned improvement, such as a house or cabin located on public land for purposes of property taxation, is it proper to include in the valuation the value for the leasehold interest (land value) component? A leasehold interest is created when public land is leased. In some cases, the land is being leased at below market rent. Since leasehold excise tax is due on land rent, the leasehold excise tax being paid when rent is less than market rent is less than it should be otherwise. Should the tax on this missed full rent be picked up by adjusting the rent to a market rent or should it be picked up in the assessment of the improvement?

The answer to the question is that the rent should be adjusted and only the value of the improvement may be assessed a property tax. If the land rent is below market rent, the improvement value may not be increased to make up the difference, nor may a land leasehold value be assigned and assessed a property tax. If, for example, a privately-owned cabin on public land sells, the sale price may include the value of the cabin as well as some value for the leasehold interest in the land. The leasehold interest is created by the under-market land lease and may not be assessed as part of the property tax assessment.

A privately-owned improvement on leased public land is subject to property taxation as personal property. See *Washington Mutual Savings Bank v. Dept. of Revenue*, 77 Wn. App. 669 (1995). The leasehold interest in the real property on which the improvement sits is exempt from property taxation under RCW 84.36.451 and is instead subject to leasehold excise tax under chapter 82.29A RCW.

Because only the improvement is subject to property taxation and the leasehold interest is exempt, only the value of the improvement itself is relevant for purposes of property taxation. Any component of value based on the leasehold interest is not relevant. See *Moyer v. Martin*, BTA Docket No. 54968 (2000).

With respect to cabins (improvements) on leased public land, we know that the land is exempt from property taxation and is instead subject to leasehold excise tax (RCW 82.29A.020). Improvements to publicly owned leased land are subject to property tax and classed as personal property (RCW 84.04.080).

If the value of the cabin on leased government land reflects more than just the value of the cabin, then only one conclusion can be reached; the leasehold interest includes value associated with the exempt land.

How should the value of the leasehold interest in the cabin and other improvements to the land be determined if sales prices include some value in the exempt land and how do we test for this?

In order to extract value of exempt land, appraisers should analyze sales data to determine the value of the fee simple interest (land plus improvements). After the fee simple interest is determined the appraiser should subtract out the exempt land value. Exempt land value can be determined by capitalizing the annual market net lease amount at a safe rate. Don't assume that the contract rent is at market level. Be careful to use market rent for the leased land and not the contract rent. This can be tested if there are any similar properties selling that are not subject to a land lease.

(Continued on page 5)



## Valuation of Privately-Owned Improvements on Public Land (cont.)

(Continued from page 4)

Another way to determine the value of the improvement is through a sales analysis of comparable improvements on leased land and adjust for lot differences. Once the improvement value is determined it can be broken down into units of comparison such as dollars per square foot and used to value other improvements in the area.

A final way to isolate the value of the improvements is to use the Cost Approach to Value. Balancing this against the Sales Approach provides a stronger basis for valuing other property.

Based on the above analysis, appraisal judgment is used to arrive at a final conclusion of value for the improvements. The effects on value of the lease amounts and differing land and improvement characteristics may be determined. The other benefit is that appraisals are not limited to just a Cost Approach to arrive at the improvement value, but are balanced by the use of multiple approaches to value.

Remember, this same analysis applies to any improvements on leased public land including commercial and industrial improvements.

## 2004 Personal Property Valuation Guidelines Highlights

By Anja Pangborn, Property Tax Auditor

Several changes were made to the *2004 Personal Property Valuation Guidelines*. You'll find 11 new asset categories in the *Index* and new valuation rates for three categories. Through studies, we confirmed our previous recommendations for four other categories and the videotape valuation guide from 2003.

### 2004 Additions—As You Requested

We added the following categories to the *Index* as a result of your requests in the County Valuation Guidelines Survey:

- Mint Stills & Tubs
- Hay Equipment & Hay Tarps
- Railroad Car Conversions
- Mobile Trailer Units
- TVs (for entertainment)
- GPS Receivers
- Fax/Phone/Copier Units
- One Hour Photo Equipment
- Gambling Equipment
- Day Care Equipment

Microchip Manufacturing Machinery and Equipment replaces the category High Tech M&E.

### Results of 2004 Valuation Studies

#### Valuation Rate Changes

- Computers 33% (Trend II) from 38.5%
- Notebook Computers 33% (Trend II) from 38.5 %
- Title Plants—Table B

#### No Changes Recommended

- Copy Machines 28%
- Agriculture/Farm Equipment 12%, 16%, and 18%

(Continued on page 6)

## This Quarter's Reminders

(Continued from page 4)

application deemed approved unless assessor has notified owner otherwise. (RCW 84.34.035)

### May 31

County assessors to have completed listing and placing of valuation on all property no later than this date. However, assessor may add property (new construction and mobile homes) to list later after written notice to person to be assessed. (RCW 84.40.040)

### June 1

Penalty of three percent will be assessed on the amount of current year's taxes delinquent on June 1. (RCW 84.56.020) Also, may establish newly incorporated taxing district if co-terminus boundaries with established district. (RCW 84.09.030)

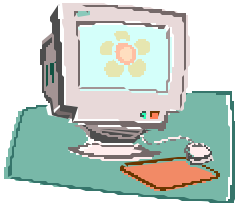
### June 30 (On or before)

DOR sets stumpage values for July through December 2004. (RCW 84.33.091) DOR to determine value of state assessed property. June 30 is the first day to request a formal hearing on value of state assessed property.

### July 1

Appeals to be filed to the County Board of Equalization by July 1 or within 30 days of the date of notification. County legislative authority may extend the deadline from 30 days up to 60 days by adoption of local ordinance/ rule. (RCW 84.40.038) ♦

## 2004 Personal Property Valuation Guidelines Highlights (cont.)



*A study of personal computers and notebooks determined a rate change from 38.5% to 33% based on the Fall 2003 Orion Blue Book prices for used equipment.*

*(Continued from page 5)*

- Retail Fixtures still 16%
- Video Tapes & DVDs 24% of original cost

Internal Department studies, surveys, table and rate calibration analysis, and category reviews are the basis for these changes.

### Summary of Study Changes

- A study of desktop personal computers and notebooks determined a rate change from 38.5% to 33% based on the *Fall 2003 Orion Blue Book* prices for used equipment vs. MSRP.
- A study of Day Care equipment determined a rate of 22%. (Excludes office, kitchen and computer assets used in day care business.)
- Title Plants now have a graduated rate scale based on the number of real property parcels reported to the Department for stratification purposes for the ratio. A study and considerable analysis with assistance from the Washington Land Title Association prompted the change. Supplemental Valuation Table B contains the new guidelines.

### Summary of Property Studied with **No Change Recommended:**

- A study of Agricultural/Farm Equipment produced no significant changes in valuation. Many farm assets in the studied data were older than the estimated economic life used as the basis for valuation, suggesting lower depreciation rates might be appropriate. However, many farms retain older equipment for occasional or back-up use—confirming our current recommendations.
- A study of Copiers confirmed the 28% rate based on *Fall 2003 Orion Blue Book* data, again comparing MSRP to the price of used copiers.
- A study of Retail Stores did not produce changes for 2004, e.g., Kmart, Wal-Mart, Fred Meyer.

**Title Plants now have a graduated rate scale based on the number of real property parcels reported to the Department..**

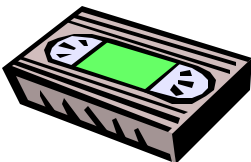
### Videotapes and Property Held or Owned for Short-Term Rental

Value videotapes and all other rental or rented assets at their retail value (retail trade level). These may be new or used assets held for rent. We still recommend a value of 24% of the original cost—if known—otherwise \$11.00 per tape or disk.

(For more information read the Property in Motion article from the Qtr 1 2003 Property Tax Review—*Changes in Valuation of Videotapes, Laser Disks & DVDs.*)

### How to Access the Guidelines

View the **Personal Property Valuation Guidelines** in PDF format on the Department's website at <http://dor.wa.gov>. The Guidelines can be accessed by clicking on the **Taxes** tab located at the top of the page, then click on **Property Tax** on the left-hand side of the page, and then select **Publications** in the middle of the screen. Choose **Personal Property Valuation Guidelines**, and select tables for 2004.



*Value videotapes and all other rental or rented assets at their retail value (retail trade level).*

Remember—the website contains the current version of the Guidelines. We've updated the 2004 Guidelines twice since the original distribution.

### Need Help?

**Contact**—Neal Cook, Personal Property Specialist, (360) 570-5881, [NealC@dor.wa.gov](mailto:NealC@dor.wa.gov).

## What is the Difference Between Video Games and Arcade Games?

Isn't it obvious what a video game is? Many of us have them at home, or do we? In the context of the Personal Property Valuation Guidelines, video games are not those games you can rent at the video store. The category of video games under the business activity of *Amusement Devices* on page 1 of the Index does not refer to the games you can rent and use with a home game console. This category of business activity predates those games and refers to machines typically found in an arcade. Supplemental Table A says to value these machines at 60%, 37%, and 20% of untrended cost for machines one, two, and three plus years of age.



*Video games are not those games you can rent at the video store.*

How should video games -- the kind you can rent and use in your home console -- be valued? These items fit into the same category as rental Video Tapes, Laser Discs, and DVDs. The guidelines say to value these business assets at 24% of original cost, if known, otherwise \$11 per tape, disc, or DVD. These items tend to have a very short shelf-life in business and may not be held for rental more than a few months. However, some titles are usually retained long-term after excess copies of once popular titles are liquidated. ♦

## Legislature Makes Ad Valorem Taxation of Timber on Public Land A Thing of the Past

The Legislature passed ESHB 2693 on March 11, 2004. Section 3 of the act exempts **all** timber from the property tax. Both houses voted unanimous approval of the bill, and the Governor has signed the legislation.

The act replaces the property tax associated with timber sales on non-federal public land by an excise or harvest tax -- just like all other timber is taxed now. However, there will be a phase-in of the excise

tax rate until it reaches the same current level for timber harvested from private land.

The effective date of this bill is January 1, 2005, but Section 7 of the act says: *Section 3 of this act applies to taxes levied for collection in 2005 and thereafter.*

This means the work of the assessor is impacted as of January 1, 2004, since the 2004 assessment is the basis for the 2005 tax collections.

Therefore, the assessor does not need to calculate the value

of any timber sales for the 2004 assessment year or any year thereafter. The published and distributed Timber Adjustment Table is not needed and can be ignored since there is no reason to use it from now on.

The text of the bill can be found at the following link: <http://www.leg.wa.gov/wsladm/billinfo/dspBillSummary.cfm?billnumber=2693> ♦ ♦

Utility valuations dropped about 5.1% or about \$725 million from the previous year's utility assessment roll.

## Revaluation and Inspection Cycles—A Plan for Change

By Cindy Boswell, Revaluation Specialist

Development of new revaluation plans is underway for counties scheduled to begin a new plan with the 2005 assessment year. Those counties will soon be sent a form for use in reporting their proposed plan to the Department. During the review of county plans this past year, one thing was very apparent--the process of changing revaluation or

inspection areas/boundaries is a smoother transition when those involved are prepared through advance planning.

Planning tools successfully used by assessors this past year and also basic plan requirements, for both cyclical and annual counties, are provided to assist those counties currently working on a new plan and also as a

reminder for those counties several years out from beginning a new plan.

Mark Leander, assessor of **Skagit County** is in the midst of a conversion from a 6-year inspection to a 4-year inspection cycle. The process began during the previous plan and it will be complete by the

*(Continued on page 8)*

**2004****Upcoming Training**

(State/County Personnel ONLY)

**March 22-26**Fundamentals of the Assessor's Office  
Tumwater — \$100**March 30-31**Land Valuation  
Moses Lake — \$75**April 7-8**Current Use  
Lacey — \$75**April 13**USPAP Update  
Tacoma — \$75**April 14-15**Land Valuation  
Tacoma — \$75**April 20**Intermediate Legal Description  
Spokane — \$35**April 27-28**Current Use  
Spokane — \$75**May 11-12**Advanced Statistical Analysis  
Tacoma — \$100**June 8-9**BOE — New Member/Clerk  
Spokane — Free**June 10**BOE — Senior Members  
Spokane — Free**June 11**BOE — Senior Members  
Moses Lake — Free**June 15**BOE — Senior Member  
Arlington — Free**June 16**BOE — Senior Member  
Tumwater — Free**June 17**BOE — Senior Member  
Longview — Free

For further information, contact Linda Cox, Education Coordinator at (360) 570-5866 or by e-mail at LindaC@dor.wa.gov.✦

**Revaluation and Inspection Cycles—A Plan for Change (cont.)***(Continued from page 7)*

end of this year. The transition is based on an inspection interval that is phased down from 6-years, to several areas with 5-year intervals, and finally resulting in four areas with a 4-year inspection interval. By the start of a new plan in 2007, the transition to 4-year inspection interval will be complete. The concept of the phased-in change required that additional parcels be incorporated into existing inspection cycles. With an annual revaluation of property, inspections may be more frequent, as long as the plan provides for an inspection at least once during the six years period.

Several factors allowed Assessor Leander to successfully increase workload during the transition: funding for three additional appraisers from 1997 to 2000 to handle the increased volume of new construction, a skilled assessor, and an experienced chief appraiser and staff. The impact on the county and taxing districts from a high volume of new construction and growth encouraged the support of the commissioners and finance director. Through the use of a phased-in approach, Assessor Leander and his team have been able to inspect all property during the transition without extending any inspections outside of a 6-year interval.

Recent reviews of other counties' plans have revealed planning methods that are leading to successful implementation of changes to

inspection cycles within their respective counties.

**Yakima County Assessor**

Dave Cook has developed his annual revaluation plan with modifications to his six inspection areas boundaries. Boundary changes are based on an internal assessment that identified neighborhoods which are strongly defined by market activity. Well defined neighborhoods are expected to enhance the use of mass appraisal models as well as provide better utilization of staff resources. Assessor Cook, working together with his IS coordinator, sales analyst and lead appraisers, has focused on the identification of neighborhoods through analysis of sales, market defined neighborhood characteristics, and geographic boundaries. Once the neighborhoods were identified and clustered, then necessary changes to inspection areas boundaries were identified and incorporated within the new revaluation plan.

**Snohomish County Assessor**

Cindy Portmann, together with past assessor Gail Rauch, made the well-planned leap from a 4-year revaluation program to an annual revaluation program with a 6-year inspection cycle. The county went through software conversion during the early 2000's, which has provided time to work with the software application and gain confidence in the system's ability before making the additional transition to an annual revaluation program.

Initial planning for annual revaluation highlighted the critical importance of identifying neighborhoods and planning the configuration of inspection areas that would best utilize resources and bode well in a model-based mass appraisal environment. A consultant was used to work with staff in identifying neighborhoods and the development of inspection areas. Also, the Residential Appraisal Department has been reorganized with a focus on task related work groups. This reorganization is expected to better support the range of functions in an annual revaluation program.

Assessor Portmann acknowledges that a continuing commitment from the county to provide for development tools, such as advanced training for staff, analysis and modeling software, and use of a consultant, will be important for a successful transition and a strong revaluation program.

The **Thurston County** team, led by Assessor Patricia Costello, has focused on strategic business planning which incorporated (1) needs assessment, (2) redevelopment of business planning, and (3) updating standards, policies, and assessment documentation. The needs assessment included addressing questions such as: Where are we currently? Where do we need to be? What will it take to get there? Periodic reviews are made to determine if the course needs to be adjusted.

*(Continued on page 9)*



## Revaluation and Inspection Cycles—A Plan for Change (cont.)

(Continued from page 8)

Their inspection cycle was changed to maximize mass appraisal efficiencies through integration of market modeling tools and processes. They have redefined market regions, combined neighborhoods, and changed inspection areas. The county has placed a high priority on data integrity and has expanded its sales validation program to target inspecting and validating valid sales. Combined with the regular inspection program, properties may be inspected more frequently than the 6 year requirement. Also, they have made a significant investment to upgrade appraisal staff skills in using technology and mass appraisal tools (i.e., Microsoft Access, SQL language, ArcInfo, statistical analysis and valuation modeling).

### Establishing Revaluation Areas/Inspection Boundaries

Establishing revaluation or inspection areas/boundaries to ensure a balance of workload with resources is an important aspect of developing a revaluation plan. Several concepts guide the development of a revaluation plan whether it is a cyclical revaluation cycle or an annual revaluation with a cyclical inspection cycle.

To meet constitutional and statutory requirements, a revaluation plan shall provide for complete reappraisal of all property; an active and systematic program of revaluation on a continuous basis; and all parcels should be inspected at least once during the plan's timeframe. Physical inspections shall meet

the requirements of RCW 84.41.041, WAC 458-20-326 and WAC 458-12-339.

### Revaluation Area Boundaries in Cyclical Revaluation

In order to meet the requirements of a systematic program, the prescribed time to make adjustments in your revaluation area boundaries is in conjunction with the start of a new plan/cycle. The new plan easiest to implement is the old plan that has not changed. However, in most jurisdictions, change is constant—as new parcels and improvements to property reflect the growth in communities. Growth may not be evenly distributed throughout the county, and resources shift with budgets, staff changes, technology, and expanded programs.

In many cases, a plan may need only subtle adjustments near growth pockets. If you are toward the last several years of a plan that doesn't seem to work as well as it did in the past, then it may be time to begin developing your next revaluation plan. This is the time to think about growth patterns within your county—do you need to adjust cycle boundaries? Is one area growing at a faster rate than other areas? Is the growth in homogenous neighborhoods? How will non-homogenous growth affect workload? Is there a balance of workload during reval areas? Is the

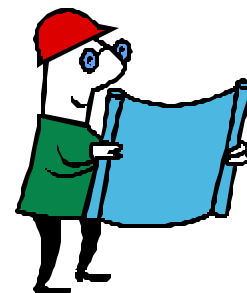
distribution of property type within each area a good fit with the ratio of appraisers skilled in specific use properties? For example, do you have enough commercial staff to handle the commercial in each year of the cycle?

The process has to be a challenge—to meet all these needs and do it within the confines of laws and the ruling in *Dore v. Kinneer*. This case states that a substantially equal amount of taxable real property must be revalued in each year of a cyclical program in order to comply with equal protection requirements of the state and federal constitutions and uniformity of taxation clauses of the state constitution. *Dore v. Kinneer*, 79 Wn.2d 755, 489 p.2d 898 (1971)

### Inspection Areas with Annual Revaluation

When properties are revalued on an annual basis, there is a bit more flexibility in making minor adjustments to inspection cycles. However, proposed changes do need to be submitted to and reviewed by DOR before the change is implemented. If it is necessary to make a change in the middle of a plan, it is preferable to maintain the interval of 6 years or less rather than move outside the 6-year interval. The strength of the process used by Skagit County allowed them to maintain an inspection interval of 6 years or less. This process will keep your record of property characteristics current and will support the

(Continued on page 10)



*If you are toward the last several years of a plan that doesn't seem to work as well as it did in the past, then it may be time to begin developing your next revaluation plan.*

**"To meet constitutional and statutory requirements, a revaluation plan shall provide for complete reappraisal of all property..."**



*"...the prescribed time to make adjustments in your revaluation area boundaries is in conjunction with the start of a new plan/cycle."*

## Revaluation and Inspection Cycles—A Plan for Change (cont.)

(Continued from page 9)

assessor’s statutory presumption of correctness (*Dare v Clifton*, BTA Docket 41953, 1992).

In summary, the easiest plan to implement is one that does not change. However, in most jurisdictions, change is constant as counties experience growth in workload and resources shift with budgets, staff changes, technology, and expanded programs. Plans may change at the right time—we just need to plan for those changes. ♦

## Utility Valuations for the 2003 Assessment Year

By Steve Yergeau, Utility Valuation Program Manager

Utility valuations dropped about 5.1% or about \$725 million from the previous year’s utility assessment roll.

As I’m deciding how to start this article, I glanced at my calendar and realized that spring is here. However, when I look out the window on this Friday afternoon and still see gray clouds and bare trees moving back and forth in the blowing wind, the one thing it reminds me of is that change is the only constant. This brings me to the 2003 Utility Valuations; change was definitely in the air.

Let me get right to the point. Utility valuations dropped about 5.1% or about \$725 million from the previous year’s utility assessment roll. Table A illustrates the actual and equalized (certified) statewide utility values of intercounty utility companies from the 2002 to the 2003 assessment years.

What’s the primary driver of this change? A suppressed telecommunications market; specifically, an oversupply of fiber-optic cable in the United States. The Telecommunications Act of 1996, passed by Congress, allowed for new forms of competition in local and long distance markets. Many long distance telecommunication companies invested billions of dollars in long distance fiber-optic networks believing that demand for fiber optic capacity (based on internet traffic projections) was going to severely outstrip the current supply (capacity) of the networks in place. In addition to the projected demand, the market participants also followed Say’s Law, which in layman’s terms means “supply creates its own demand.” (An 18th century French economist.)

fiber-optic companies to compress the amount of data sent through the single fiber while simultaneously increasing the amount of singles per fiber (further fracturing the light wave). These advances allow fiber carriers to move data up to 400 Gigabits per second (Gbps), reducing the need for massive amounts of fiber. Unfortunately, for many telecommunications companies, the fiber has already been laid.

After all, despite what I see out the window, the calendar says it is springtime and soon flowers will come into bloom, leaves will grow back on the trees, and I believe sunnier days are just around the corner.

For detailed information on utility valuations, please visit the Utility Values link on our website at: [http://dor.wa.gov/content/taxes/Property/prop\\_PubUt.aspx](http://dor.wa.gov/content/taxes/Property/prop_PubUt.aspx). ♦

Well, they all missed the boat due to rapid technological advances. While an older single fiber-optic strand may have had the capability of moving about 155 Megabits per second (Mbps), engineers have been able to introduce technology that has allowed

Table A  
(Dollars in millions)

	2003	2002	Change
Actual Value	\$14,248	\$15,177	(\$929) (6.1%)
Equalized Value	\$13,555	\$14,280	(\$725) (5.1%)
Number of Companies	360	356	4

## 2004 Legislation Update

By David Saavedra, Program Coordinator

The following bills that affect property taxation were recently signed into law by the Governor.

### House Bills

**1322** — Effective on 6/10/04, this House bill provides a property tax exemption to all property belonging exclusively to any federally recognized Indian tribe if it is used exclusively for essential government services. The bill defines "essential government services" to mean services such as tribal administration, public facilities, fire, police, public health, education, sewer, water, environmental and land use, transportation, and utility services. The exemption will be administered locally.

**2519** — This bill becomes effective July 1, 2004 and creates an additional regular property levy for criminal justice purposes. The amount of the levy is \$0.50 or less per thousand dollars of assessed value. The levy may be imposed for six consecutive years if approved by a super-majority of the voters at a general or special election. The bill restricts the levy to counties with population of 90,000 or less.

**2693** — Exempts all standing timber from ad valorem taxation and replaces it instead with a harvest/excise tax. This bill becomes effective for 2004 assessments for taxes due in 2005.

**2878** — This bill is known as the Treasurer's cleanup bill and makes several minor changes to county treasurer

statutes, including the ability to collect property tax immediately on mobile homes and park model trailers when the owner has provided an affidavit of destruction. This bill also provides that the penalty for late filing of personal property listings shall be distributed in the same manner as other property tax penalties and interest. RCW 84.56.025 is amended to delete the word "priority" in front of "tax liens." This bill becomes effective June 10, 2004.

### Senate Bills

**5034** — This bill affects the Senior Citizen/Disabled Person Exemption Program and the Senior Citizen/Disabled Person Deferral Program by raising the qualifying income limit for both programs. Qualified applicants who have \$35,000 or less of disposable income are exempt from all excess levies. Those with income between \$25,000 and \$30,000 are eligible for an exemption from all excess levies and exempt from regular property tax levies on the greater of \$50,000 or 35% of the valuation of his or her residence but not to exceed \$70,000 of the valuation of his or her residence. Those with income less than \$25,000 are eligible for exemption from all excess levies and exempt from regular property tax levies on the greater of \$60,000 or 60% of the valuation of his or her residence.

The disposable income limit for the property tax deferral program were raised to \$40,000, up from \$34,000.

For both the exemption and deferral programs the calculation of disposable income now allows for a deduction for the cost of insurance premiums for Medicare. Additionally, applicants may deduct non-reimbursed costs associated with the treatment or care received in a boarding home or adult family home.

The bill also linked the definition of "disability" to the federal definition used for social security purposes and created a provision so that a claimant may be located in a boarding home or adult family home and not lose their exemption or deferral benefits.

The bill becomes effective June 10, 2004.

**5326** — This bill allows a vote of the people to create regional fire protection service authorities for the design, financing and development of fire protection services. Fire protection jurisdictions that may participate in the regional fire protection service authority include fire protection districts, cities, towns, ports, and Indian tribes. Money may be raised through regional sales and use tax, benefit charges, or property taxes. Fire protection jurisdictions participating in a regional fire protection service authority must reduce their property tax levy rate by the rate imposed by the regional fire protection service authority.

The bill is effective June 10, 2004.

Several bills that affect property taxation were recently signed into law by the Governor.

## 2004 Legislation Update (cont.)

**6141** — This bill clarifies the exempt status of a vehicle carrying exempt licenses. One might ask why the exempt status needed clarifying. The answer to that question is that when the Legislature passed the bill to exempt motor vehicles from property taxation in response to the passage of Initiative 695 limiting the motor vehicle excise tax to \$30, motor vehicles carrying exempt license plates were inadvertently omitted from the property tax exemption.

**6216** — This bill which takes affect on June 10, 2004, amends the definition of timber land contained in RCW 84.34.020(3) for classification in the current use program. This bill expands the definition to include land used for incidental uses that are compatible with the growing and harvesting of timber. Such incidental use is limited to 10% of the classified land. It also includes land on which appurtenances necessary for the production, preparation, or sale of timber products exist in conjunction with the land producing the timber products. This bill conforms the usage of classified timber land under the current use program (under chapter 84.34 RCW) with designated forest land under chapter 84.33 RCW. The bill also provides clarification that timber land does not include a residential homesite.

**6237** — This bill allows for "accessory uses" of agricultural land that support, promote, or sustain agricultural operations and production. "Accessory uses" may include compatible commercial or retail uses including: "Off-farm and on-farm sales and marketing of predominately regional agricultural experiences, locally made art and arts and crafts, and ancillary sales or service activities." Although the bill did not amend the current use statutes, the uses allowed under SB 6237 may be incompatible with uses authorized under the current use program.

**6302** — This bill amends RCW 84.56.020 regarding interest or penalties for delinquent property taxes for personal residences of military personnel who participated in "Operation Enduring Freedom." Under the provisions of the bill, no interest or penalties may be assessed for the period from April 30, 2003 through April 30, 2005 on delinquent taxes imposed for collection in 2003 or 2004.

**6304** — This legislation provides relief for aluminum smelter and encourages the retention of electricity to the NW electrical grid by; giving a preferential B&O rate, B&O credit from sale of electricity and gas, credit for sales tax on personal property that will be used in buildings, and PUT credit for sales of electricity or natural gas. This bill also provides for a B&O tax credit for all property taxes paid during the calendar year owned by a direct service customer and reasonably necessary for purposes of an aluminum smelter.

**6581** — This bill amends RCW 76.04.610. Property owners must own at least 6 parcels in order to combine billing of all assessments on one parcel. Prior to the passage of this bill, by 2006 property owners would have been able to combine the fees for forest fire protection with ownership of only two parcels.

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